



U.S. SENATE COMMITTEE ON

Finance

SENATOR CHUCK GRASSLEY, OF IOWA - CHAIRMAN

<http://finance.senate.gov>

For Immediate Release

Wednesday, Nov. 19, 2003

Grassley, Others Introduce Bill to Extend Expiring Tax Provisions

WASHINGTON -- Sen. Chuck Grassley, chairman of the Committee on Finance, along with several colleagues, tonight introduced legislation to extend nearly all of the tax provisions that are scheduled to expire on or before Dec. 31, 2003.

The bill would extend each of the expiring provisions for six months, with the exception of two provisions that are extended until the end of 2004 because of difficulty extending these provisions for a lesser increment (tax provisions for mutual life insurance companies and Archer medical savings accounts). Some of these provisions have also been included among provisions in the ongoing energy bill, Medicare bill, and charitable giving bill.

The cost of the Senate bill is \$1.205 billion over 10 years, and is fully offset. Below is a list of the tax provisions in the Senate bill. The 10-year cost is also shown.

Original co-sponsors are Sen. Max Baucus, ranking member, and Sens. Gordon Smith, John Rockefeller, Orrin Hatch, Kent Conrad, Jim Bunning, Bob Graham, Rick Santorum, Jim Jeffords, and John Breaux.

The senators have not yet determined whether the bill will advance on its own or as part of another vehicle.

Extended Provision That Expired in 2002

1. Combined employment tax reporting demonstration project (sec. 976 of the Taxpayer Relief Act of 1997) - expired 8/5/02. Provides that business taxpayers file one form, which contains information needed and used by both the IRS and the states. The STAWRS (Simplified Tax and Wage Reporting System) program was added by the Taxpayer Relief Act of 1997. No revenue effect. Senate bill would extend provision through June 30, 2004.

Extended Provisions That Expire in 2003

2. Tax on failure to comply with mental health parity requirements applicable to group health plans (sec. 9812) - expires 12/31/03. The mental Health Parity Act of 1996 requires that health plans

provide the same lifetime or annual dollar limits for mental health benefits as for medical and surgical services. The Taxpayer Relief Act of 1997 imposed an excise tax on group health plans that fail to meet these requirements. The tax is \$100 per day for the period of noncompliance and is imposed on the employer sponsoring the plan. The maximum penalty cannot exceed 10 percent of group health plan expenses or \$500,000. 10-year cost: \$12 million. Senate bill would extend provision through June 30, 2004.

3. Work opportunity tax credit (Sec. 51) - expires 12/31/03. The WOTC, formerly the Targeted Jobs Tax Credit, encourages employers to hire members of targeted groups such as high risk and summer youth employees, families receiving food stamps, SSI recipients, and qualified veterans. Employers may claim a credit, ranging from 25% to 40% of wages (up to a maximum of \$6,000) paid to a target group employee during the first year of employment. The maximum credit is \$2,400 per employee (\$1,200 for summer youth). 10-year cost: \$156 million. Senate proposal extends through June 30, 2004.

4. Welfare to work tax credit (Sec. 51A) - expires 12/31/03. The welfare-to-work (WTW) credit enables employers to claim a credit (35% in year 1, 50% in year 2) on the first \$10,000 of wages paid to certain long-term family assistance recipients. Eligible recipients are: (1) individuals receiving family assistance; (2) individuals receiving family assistance for a total of at least 18 months after the date of enactment, if they are hired within two years after the 18-month total is reached; and (3) individuals no longer eligible for family assistance because of federal or state time limits, if hired within two years of reaching the time limits. The maximum credit is \$8,500 per qualified recipient. 10-year cost: \$57 million. Senate proposal extends through June 30, 2004.

5. New York Liberty Zone work opportunity tax credit (sec. 1400L(a)) - expires 12/31/03. This is one of several provisions that was intended to assist New York City in its economic redevelopment after the terrorist attacks. 10-year cost: \$153 million. Senate proposal extends through June 30, 2004.

6. Suspension of 100 percent-of-net-income limitation on percentage depletion for oil and gas from marginal wells (sec. 613A) - expires 12/31/03. Provides a deduction for the depletion of oil and gas wells. The amount of depletion is limited to 100% of the net income from that property in any year. The provision also suspends the 100% of the net income limitation on the domestic production from marginal wells. An extension of the tax incentive and relief provision would avoid production disruptions and allow more time to consider additional extensions or modifications. The proposal would extend the provision for two more years. 10-year cost: \$17 million. Senate proposal extends through June 30, 2004. Note: This provision is currently included in the 2003 energy bill.

7. Tax credit for energy produced from wind, closed-loop biomass, and poultry litter (facilities placed in service date) - expires 12/31/03. Provides a production tax credit for electricity produced from renewable resources, including wind, closed-loop biomass and poultry waste. 10-year cost: \$80 million. Senate proposal extends through June 30, 2004. Note: This provision is currently included in the 2003 energy bill.

8. Tax credit for qualified electric vehicles - expires 12/31/03. A 10- percent nonrefundable

tax credit, calculated on the purchase price, is available to buyers of qualified electric vehicles. The maximum credit is \$4,000. 10-year cost: \$3 million. Senate proposal extends through June 30, 2004. Note: This provision is currently included in the 2003 energy bill.

9. Deduction for clean fuel vehicles and refueling property - expires 12/31/03. Provides a deduction to taxpayers who purchase clean-fuel vehicles or clean-fuel vehicle refueling property. The deduction for vehicles applies for any vehicle that is retrofit or manufactured so that it may run on alternative clean-burning fuel (includes natural gas, liquefied natural and petroleum gas, hydrogen, electricity or methanol, ethanol or alcohol mixed fuels). 10-year cost: \$96 million. Senate proposal extends through June 30, 2004. Note: This provision is currently included in the 2003 energy bill.

10. Qualified zone academy bonds (QZABs) (sec. 1397E) - expires 12/31/03. QZABs are bonds issued by states or localities that are used for renovating, purchasing equipment for or training teachers, etc. for certain qualified schools. These bonds allow the holder to claim a federal income tax credit in lieu of interest. 10-year cost: \$49 million. Senate proposal extends through June 30, 2004, at pro-rated levels.

11. Tax incentives for investment in the District of Columbia - expire 12/31/03. Encourages redevelopment, capital investment, and homeownership by targeting certain portions of D.C. characterized by high level of poverty, unemployment, and other indicators of financial distress. Four programs: (1) designation of D.C. enterprise zone; employment tax credit; additional expensing (sec. 1400); (2) tax-exempt D.C. empowerment zone bonds (sec. 1400A); (3) zero-percent capital gains rate for investment in D.C. for property acquired by 12/31/03; for gains through 12/31/03 (sec. 1400B); and (4) tax credit for first-time D.C. homebuyers (sec. 1400C). 10-year cost: \$218 million. Senate proposal extends through June 30, 2004.

12. Temporary increase in limit on cover over of rum excise tax revenues (from \$10.50 to \$13.25 per proof gallon) to Puerto Rico and the Virgin Islands (Sec. 7652(f)) - expires 12/31/03. All distilled spirits produced in or imported into the U.S. are subject to a tax at the rate of \$13.50 per proof gallon. Ordinarily, \$10.50 per gallon of all taxes collected on rum imported into the U.S. are required to be "covered over" (sent back to) the treasuries of Puerto Rico and the Virgin Islands. The 1993 tax bill increased the cover over to \$11.30 per proof gallon. The 1999 tax bill increased the cover over to \$13.25 per proof gallon. The carryover rate is scheduled to return to its permanent level of \$10.50 per proof gallon on January 1, 2003. 10-year cost: \$52 million. Senate proposal extends through June 30, 2004.

13. Enhanced deduction for corporate contributions of computer equipment for educational purposes (sec. 170(e)(6)) - expires 12/31/03. Provides an incentive to businesses to contribute computer equipment and software for the benefit of local communities and students at the elementary, secondary, and post-secondary school levels, by providing public libraries and educational institutions with technological resources. 10-year cost: \$96 million. Senate proposal extends through June 30, 2004. Note: This provision may be part of the CARE Act.

14. Deduction for certain expenses of elementary and secondary school teachers (sec. 62a(2)(D))

- expires 12/31/03. Provides an above-the-line deduction to teachers and other school professionals for expenses paid or incurred for books, supplies (other than nonathletic supplies for courses of instruction in health or physical education), computer equipment (including related software and services) and other equipment, and supplementary materials used by the educator in the classroom. 10-year cost: \$105 million. Senate proposal extends through June 30, 2004, at pro-rated levels.

15. Expensing of "brownfields" environmental remediation costs (sec. 198) - expires 12/31/03. The Brownfields Tax Incentive is an expensing provision in the tax code that allows environmental cleanup costs to be fully deductible in the year they are incurred, rather than having to be capitalized. The tax incentive was designed to spur the brownfields cleanup and redevelopment, and was created by Congress in 1997 as part of the Taxpayer Relief Act. 10-year cost: \$89 million. Senate proposal extends through June 30, 2004.

16. Archer medical savings accounts ("MSA") (sec. 220) - expires 12/31/03. Archer MSAs were enacted to provide additional health insurance options and to give individuals more control over their health care dollars by providing incentives for individuals to be more cost conscious consumers of health care. Provides that contributions to an Archer MSA are deductible in determining adjusted gross income. Earnings and distributions from an Archer MSA for medical expenses are not taxable. Distributions not used for medical expenses are taxable. 10-year cost: \$17 million. Senate proposal extends through December 31, 2004. (The reason for this longer time-period on this provision is due to difficulty extending this period over less than a one-year time frame.)

17. Reduction in certain deduction of mutual life insurance companies - differential earning rates treated as zero (sec. 809(j)) - expires 12/31/03. Current rules require that a mutual life insurance company is required to reduce its deduction for policyholder dividends by the company's differential earnings amount. The Job Creation and Work Assistance Act of 2002 treats the differential earnings amount as zero for purposes of computing the differential earnings amount and the recomputed differential earnings amount (for tax years 2001, 2002, and 2003). The proposal would repeal the suspension of certain deductions of mutual life insurance companies. This rule never achieved its intended purpose since the differential earnings amount has been zero in recent years, thus permitting mutual life insurance companies a full deduction for policyholder dividends in those years. 10-year cost: \$48 million. Senate proposal extends through December 31, 2004. (The reason for this longer time-period on this provision is due to difficulty extending this period over less than a one-year time frame.)

Offsetting Revenue Provisions

1. Extend retiree health provision (sec. 420) - expires 12/31/ 2005. Provision permits qualified transfers of excess defined benefit pension plan assets to retiree health (sec. 401(h)) accounts, with a minimum cost requirement for excess asset transfers. 10-year revenue raised: \$298 million. Senate proposal extends through December 31, 2013.

2. Addition of vaccines against Hepatitis A to list of taxable vaccines (sec. 4132(a)(1)). Adds to list of current 12 vaccines (e.g., rubella, mumps, Hepatitis B, chicken pox) that are manufactured

or produced in the U.S., or entered into the U.S. for use, and for the purposes of the vaccine injury compensation trust fund. 10-year revenue raised: \$87 million. Effective at beginning of first month at least 4 weeks after enactment through December 31, 2013.

3. Addition of vaccines against influenza to list of taxable vaccines (sec. 4132(a)(1). Adds to list of current 12 vaccines (e.g., rubella, mumps, Hepatitis B, chicken pox) that are manufactured or produced in the U.S., or entered into the U.S. for use, and for the purposes of the vaccine injury compensation trust fund. 10-year revenue raised: \$570 million. Effective at beginning of first month at least 4 weeks after enactment through December 31, 2013.

4. IRS user fees for letter rulings, determination letters, advance pricing agreements and similar requests (sec. 10511 of the Revenue Act of 1987) - expires 12/31/04. The IRS provides written responses to questions of individuals, corporations, and organizations relating to their tax status or the effects of a particular transaction for tax purposes. The IRS generally charges a fee for such requests. For example, for a request for a letter ruling, fees range from \$250 to \$3,650. User fees for an IRS determination letter range from \$125 to \$1,250. The proposal would extend the statutory authorization for those user fees another two years and move the statutory authorization for these fees into the Internal Revenue Code. 10-year revenue raised: \$267 million. H.R. 3146 extended user fees through year-end 2004; Senate bill would further extend through December 31, 2011.